



Expenses, VAT and HMRC Compliance in a Nutshell

A comprehensive guide to expenses, VAT and HMRC compliance – by the company that brought you the 'Employee Expenses Benchmark Report'.



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This e-book includes the following:

- Research conducted by Vanson Bourne with finance decision-makers in private-sector organisations across the UK (callouts from this research can be found throughout the e-book in the blocks which say ‘interesting facts’).
- A wealth of information about what’s happening in the finance world around the topic of expenses, VAT and HMRC compliance.
- Links to download more resources on specific themes.

Download the white paper:

[Insight Into Expense Compliance: the Changing Regulatory Landscape of SME Expense Compliance](#)

Why we wrote

Expenses, VAT and HMRC Compliance in a Nutshell.

When it comes to expenses, VAT, compliance and HMRC guidelines, it is not always clear what best-practice is or even what the rules truly mean.

“Over the last few years, HMRC has become more focused on assisting businesses of all sizes to comply with HMRC policies and implement good governance when it comes to finances at the same time; think of HMRC’s advertising campaign, ‘Tax doesn’t have to be taxing’.

Nevertheless, the reality can sometimes be confusing. Many businesses outsource their tax to experts, but we are often asked for guidance. Our clients tell us that there is a real need for unambiguous, helpful advice about VAT, expenses and compliance – both with internal rules – and with HMRC guidelines.

Bearing this in mind, we are pleased to share this guide – in the hope that it may shine some light on processes, practices and behaviours around expenses – to help answer some of the frequently-asked questions we receive.

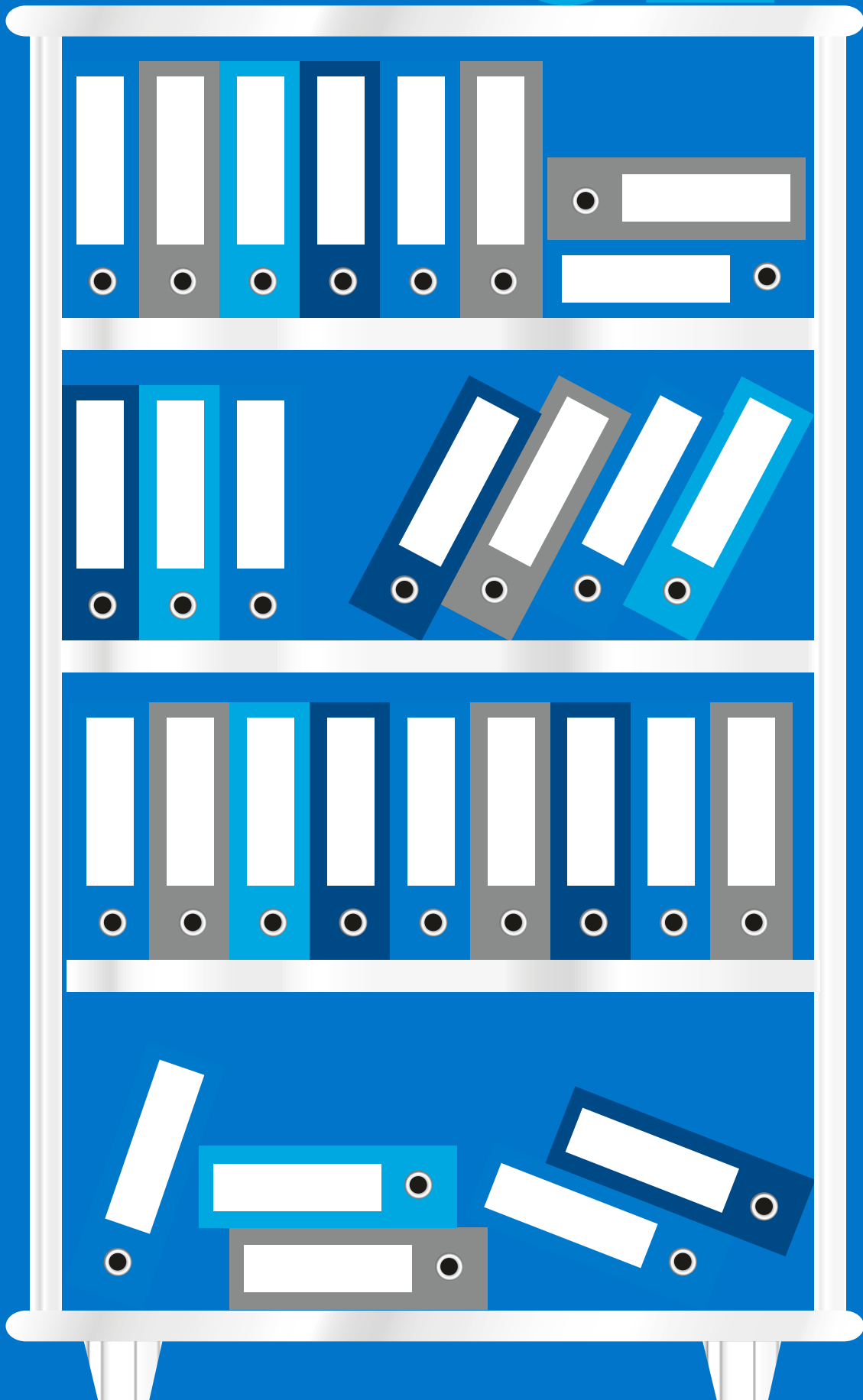
We have created this e-book to help guide individuals through the maze of VAT and expenses because even though individuals are unlikely to be asked directly to reclaim more VAT on business expenses, the chances are that businesses will ask everyone (and finance teams in particular) to find new and innovative ways of reducing costs.

Not only can reclaiming VAT on your expenses be a surprising source of hidden cash; you can rest assured that HMRC will feel far more comfortable with your business’s tax situation if you can prove that you are following the letter and spirit of their rules.”

- Matt Lewis, Director of Compliance, Concur

Download the Expenses Mythbusters Guide –
[An Introduction to What’s Claimable on Expenses in the UK](#)

02



Keeping the Tax Man Happy

When it comes to keeping the tax man happy, it's all about having the full process, nailed down. And that starts with having a policy that guides the way you do expenses.

Matt Lewis, the Director of Compliance at Concur, knows a thing or two about VAT, tax, compliance and HMRC. More than 20 years ago, he started working as a VAT inspector at HMRC where he went out to businesses to make sure they were doing the right thing and paying the right amount of VAT. Since then, he has learned a lot about what makes the tax man happy – these are some of his insights.



Interesting Facts:

5%

of senior finance leaders aren't confident they comply with HMRC's guidelines.

75% say they wish they knew more about employee expenses and VAT reclaim.

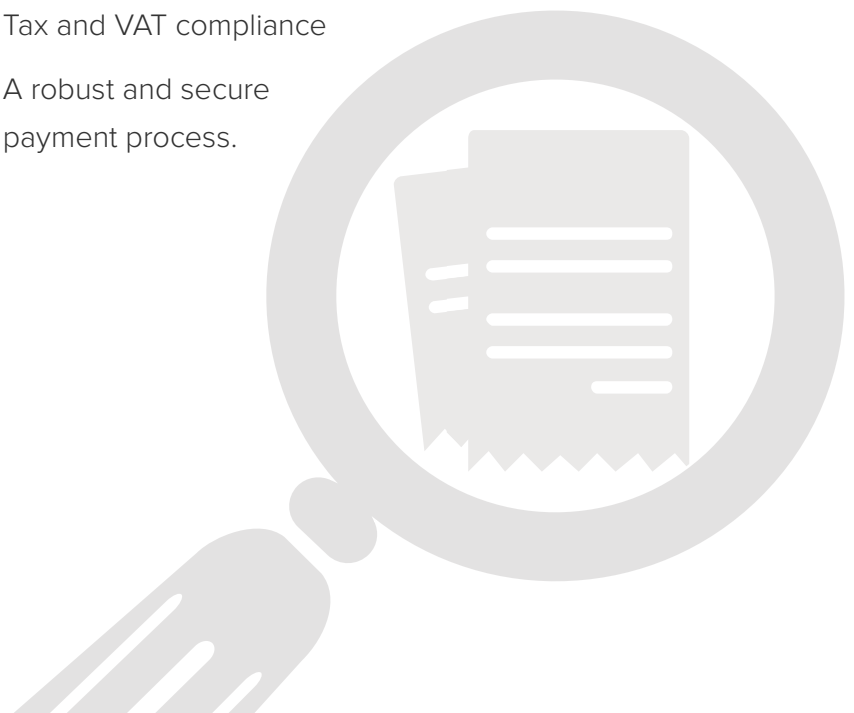
There's a common misconception...

Once HMRC decides to audit a company's travel and expense (T&E) process, people assume that their inspectors are only interested in the completed forms and the receipts that are attached to them – but they're not. They're interested in the entire end-to-end process. Clearly the forms and receipts are a major part of any audit, but, first, they must establish how far they need to delve into the T&E process.

What are HMRC inspectors interested in?

They review the whole process for weaknesses, but mainly focus on the following 6 things:

- A clear and enforced policy
- Appropriate approval processes
- Appropriate documentation
- Appropriate checks and controls
- Tax and VAT compliance
- A robust and secure payment process.



A clear and enforced policy

A good policy covers what can and cannot be reimbursed to an employee when they're travelling for business. It sets up the ground rules: how your employees should travel for business and how you expect them to spend the company's money. It should also set out your mileage reimbursement rules (HMRC is particularly interested in this area). It's entirely up to an organisation whether they have a T&E policy, or not, and what goes into that policy – but it's best practice to use a policy as the basis of any good T&E process.

A clear and enforced policy includes:

- Details of what is and what is not reimbursable
- Business travel guidelines
- Mileage and fuel rates for reimbursement
- Personal expenditure rules that cover circumstances and amounts where personal expenditure is reimbursable as well as what is specifically excluded.

Appropriate approval processes

HMRC requires that the right level of people in the business are signing off the right level of expenses – and they check that every expense form is signed off at some point, so that the company accepts liability for that reimbursement. This includes senior people within the company who are also required by HMRC to submit their expenses for approval.

An appropriate approval process includes:

- An audit trail
- Evidence such as valid VAT receipts and credit card vouchers.

Helpful Resources:

Time to update your policy?

This Expenses Policy

Template might help.

[Expenses Policy Template](#)

Interesting Facts:

43%

of senior finance leaders are very concerned about HMRC inspections.

Their major concerns?

- It will cost them money
- It will take up lots of time/resource
- The company won't have complete information available.

Appropriate documentation

'Appropriate documentation' means a full and robust end-to-end record of forms, receipts and approval processes which allows the company to prevent things from falling through the cracks. A business reason should be provided for why every line item was incurred, and every line item should be documented and supported by an appropriate receipt to show that the money has been spent. There should also be a signature to show that someone appropriate has checked that it complies with company policy.

Appropriate checks and controls

HMRC looks to make sure that appropriate checks and controls have been carried out on those completed forms. Typically, these checks are performed by your finance team or outsourced as an audit process to a third party. There is no set guideline on what you should be checking – but you should be able to fulfill the requirements above and have some kind of audit to make sure the right receipt is attached – and that the right VAT receipt is attached if VAT is being claimed.

These are the sorts of checks and controls that should be in place, for example:

- A way of making sure the form has gone through the appropriate process
- Receipt verification
- VAT verification
- Mileage verification.

They want to make sure that:

- All employee expenses are either represented on a P11d form, or that the business has been granted dispensation, which means that appropriate expenses payments don't have to appear on the P11d
- PAYE Settlement Agreement (PSAs) are in place, if required
- Valid VAT fuel receipts are available for mileage claims
- There is sufficient data to justify business expenses
- Personal items have been identified and dealt with correctly.

Tax and VAT compliance

Another element of keeping the tax man happy when it comes to tax and VAT compliance, is to make sure that there is appropriate evidence for VAT-recovery purposes.

A robust and secure payment process

It's also important to HMRC that the payment process is not vulnerable – that it prevents employees from dipping into funds as they wish. They will be looking for risk areas, and they might consider investigating these further during an audit.

Helpful Resources:

Want to know more?

Watch the: [Keeping the Tax Man Happy](#) webinar

Nonsensical VAT Rules

VAT was introduced to the UK 40 years ago on the 1st of April 1973. It was a part of the country's entry into the European Economic Community and was supposed to be straightforward and simple. Forty years on, VAT is anything but simple.

For example, when it comes to employee travel expenses, did you know that today, the difference between off-street and on-street parking matters when it comes to claiming VAT back? Equally, did you know if you hire a car for ten days then you can claim back every penny of VAT, but keep the vehicle for an extra day and suddenly you can only claim back 50%?

Interesting Facts:

13%

of senior finance leaders said they do not reclaim VAT on expenses at all!

And the vast majority of businesses do not reclaim all of their VAT.

In fact, the UK recently announced the existence of the 'Office for Tax Simplification' – whose objective is to make tax easier, simpler and less confusing.

Confusion about VAT and tax won't disappear; in fact, more countries across the globe are introducing VAT, as it's a quick and effective way for governments to raise revenue.

So what should you do to make sure you're complying? Start with the fundamentals of what the tax man is interested in – as mentioned in the previous chapter. And, when it comes to employee expenses, make sure you can account for expenses because the tax man is interested in making sure that people aren't paying too little tax or, for that matter, too much.

How much do you know about VAT?

- Did you know that any purchase over £250 needs a full VAT invoice, not just a till receipt to reclaim the VAT?
- Were you aware that you can only claim back VAT on employee's expenses (and not on someone's expenses who you have hosted but isn't on payroll)?
- Did you know that you can only claim back VAT on gifts under the value of £50? And that the VAT is only recoverable if your total spend on gifts for that one person is under £50 for the year; and not just a tax year, but in any rolling 12 month period? If you go over £50 you have to pay the VAT back on the lot!

These are just some of the helpful answers we provide on our expenses blog where we cover a wide variety of subjects such as VAT, HMRC, and compliance. You can also find answers to the following questions on [the 5 Frequently Asked Questions About VAT](#) blog that we published.

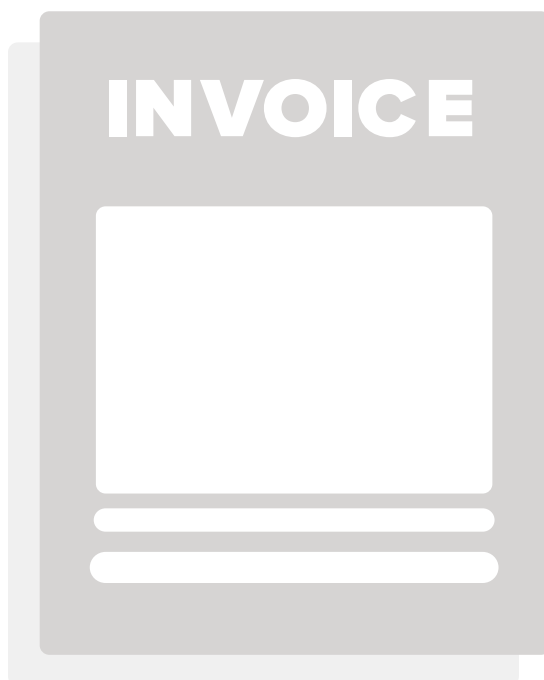
Question 1: If I [travel for business](#), and go via the office, can I claim the full journey?

Question 2: I've heard it is possible to claim VAT back on £25 worth of expenses without a receipt. Can you tell me more?

Question 3: Can I reclaim VAT on a taxi receipt?

Question 4: How long do you need to keep VAT receipts for?

Question 5: Will HMRC come down harshly on those who do not keep receipts?



Helpful Resources:

We recommend the in-depth read: [The Company, the Employee, and HMRC: a Holistic View of Employee Expenses](#)

Skip to page 20 to read this extract. Or you can read the whole ICAEW report.

04



Reclaiming VAT on Fuel

Companies have the right to claim back VAT on the fuel element of mileage allowances paid to individuals. But this must be supported by fuel VAT receipts which, in turn, must be dated on or before the date of travel and be of sufficient value to cover the VAT being claimed.

Fuel is one of the hardest things to crack when it comes to reclaiming VAT on expenses. People find it unbelievably confusing. It's also one of the easiest things to check (and one of the most frequently analysed by HMRC).



Interesting Facts:

17%

of senior finance leaders do not currently reclaim VAT on business mileage claims.

And 12% of them never will.

Here are four ways to reclaim VAT on fuel paid for business trips:

1. 100% reclaim

HMRC says you can reclaim 100% of the VAT incurred on fuel paid for business purposes. But ... you have to be able to prove that the fuel has been used 100% for business use only and that no private journeys have been undertaken. (This is almost impossible unless your business is a taxi firm or a driving school).

2. 100% reclaim + a fuel scale charge

You can reclaim 100% of the VAT incurred on fuel paid for by the business if you also pay a [VAT fuel scale charge](#). HMRC says, "It's a way of accounting for output tax on fuel that your business buys but that is then used for private motoring." (This is calculated based on the car's CO² emissions – and, unless the car does a lot of miles and has low fuel emissions, it can work out expensive). This reclaim method is one of the easiest for the VAT auditors to check and catch finance teams out on, as companies forget to pay the fuel scale charge or update the amounts when the fuel scale charge changes every year.



3. Claim only the business mileage

You can reclaim the VAT on the business element of any fuel purchased by keeping a detailed mileage log. You then do the maths to work out how much of the VAT on that purchase can be reclaimed. Alternatively, you can use the [advisory fuel rates](#) published by HMRC on 1st June 2013.

4. Claim no VAT at all

In [HMRC's guide](#), this is included as an option, but, if you choose not to claim any VAT, then you need to apply this across all the vehicles in your business, including commercial vehicles – so you won't be able to claim VAT on mileage travelled in the company delivery van either.

Four year rule!

If you've kept your receipts or necessary evidence, it's possible to claim unclaimed VAT on fuel used for business trips, for up to four years. Likewise though, HMRC can come after you for four years' worth of receipts, to prove you can support your VAT reclaims.

Reclaiming the VAT on fuel used by your business and employees can help your company make money – but get it wrong, and it can cost you. It's probably best to use an outsourced compliance service because, done right, this can help improve cash flow and [keep the tax man happy](#).

Helpful Resources:

[Download the Expenses Mythbusters Guide –](#)

[A Short-Cut to Travel](#)

[Expenses in the UK](#)



05

Reclaiming International VAT



Did you know that VAT is recoverable in more than 40 countries around the world? For companies who have employees that travel to any of those countries, there is a percentage of tax in many expense types that can be reclaimed when business travellers return to their home country. Typically, you can claim back VAT from hotels, meals, car hire, taxis and events.

However, billions of pounds in international VAT are unclaimed by companies each year. Why?

Interesting Facts:

24%

of senior finance leaders aren't confident that they understand how to claim back international VAT.

This is despite the fact that three of their top four business priorities are:

- cutting costs,
- improving the bottom line, and
- improving cash flow.

People don't know they can claim international VAT

Although the countries that allow VAT reclaim have well-established protocols in place, you will be unsurprised to note that they don't advertise these protocols widely. This, coupled with the fact that most companies have no idea about how much they can potentially reclaim, means VAT stays as a hidden cost.

Complex and diverse VAT legislation

Each country has the right to set its own rules and determine the process by which VAT can be reclaimed. Recent European legislation has led to some homogenisation of the European element of this process, in that all claims can now be bundled into one claim, regardless of country of origin. However, the individual rules are still different for each country. On top of this, submission portals are inefficient and overly-complex, and the end result for most companies that try this method is a high rate of rejected claims.

Lack of time and VAT expertise

Because each country has different rules and processes in place, it is virtually impossible to find one person that has all the knowledge required for complete and accurate VAT reclaim. In addition, language variations, changes in time zones and currency issues add further complexity. For these reasons, most companies assume that there is probably not much money to reclaim, and it would cost them too much to employ the team required to reclaim the VAT.

So what can companies do?

There are companies out there with expertise in international VAT reclaim that can simply claim the VAT on your behalf.

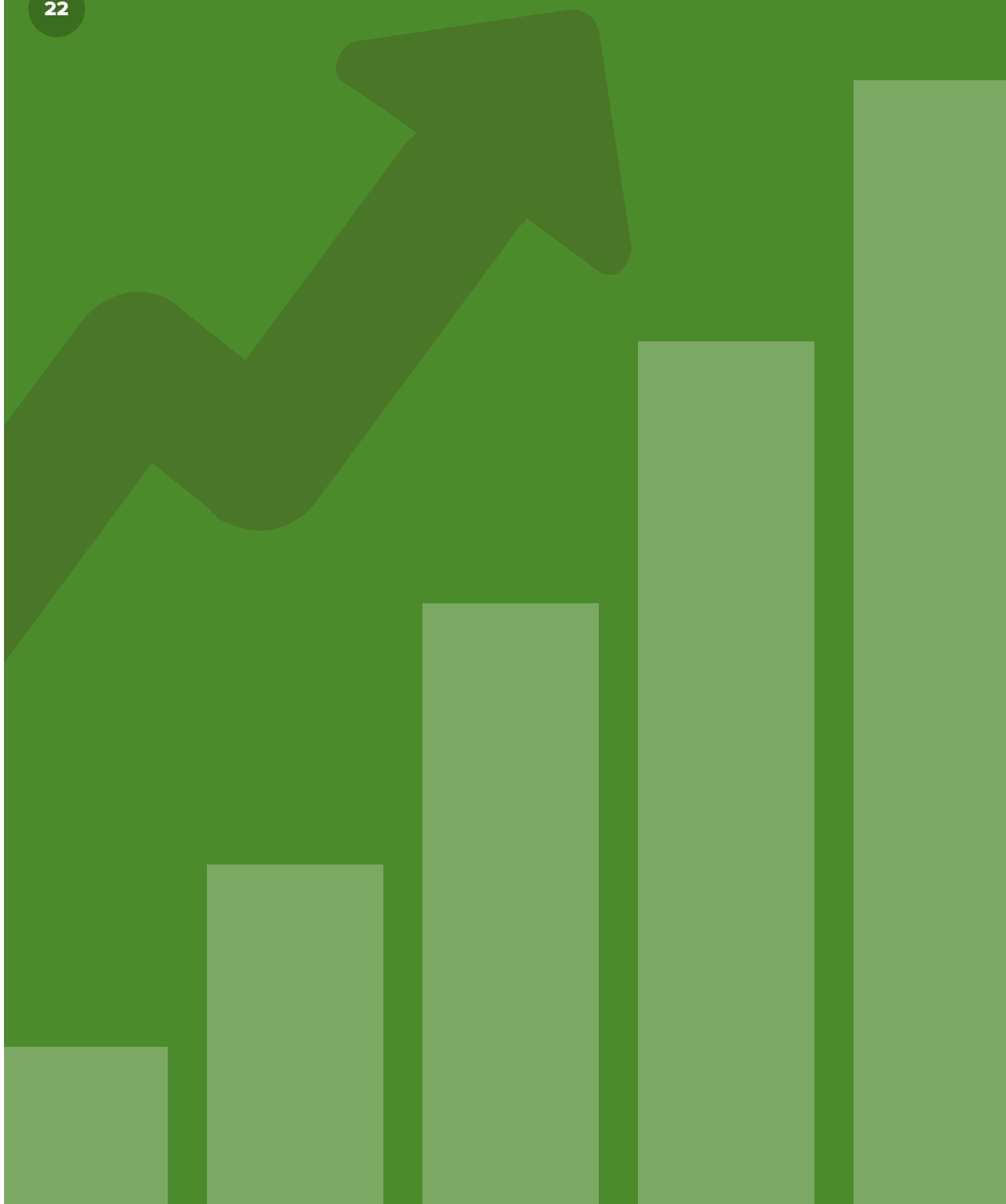
Find out more by going to www.taxback.com or read the [Concur blog](#) about reclaiming international VAT.

Helpful Resources:

Click on the link for a helpful guide:

[VAT Chart for EU Companies](#)





VAT

GOING BEYOND VAT 006

Compliance with HMRC rules and guidelines, ensuring you're paying the right amount of VAT, and having the information available on your employee expenses to report accurately to HMRC are good ways to keep your tax man happy.

So what happens next?

Here are a few things to think about beyond HMRC requirements to ensure that your company can take compliance to the next level.

Interesting Facts:

83%

of senior finance leaders trust an external person to help with their VAT position - but 7% do not assume that the 3rd parties are fully in the know and 15% are not sure that 3rd parties know all the details and understand VAT rules fully.

1. Know what HMRC is focusing on for the year ahead

VAT is the government's second largest income after income tax, and, with the economy still struggling to gain traction, collecting money where it's due to plug the revenue gap is top of ministers' minds. So, for the year ahead, HMRC will focus its efforts to recover owed money where it can, by:

- Reducing tax evasion, fraud and avoidance
- Increasing collections of VAT due
- Ensuring VAT compliance
- Increasing risk-based auditing.

2. Champion compliance

Keeping up-to-date on the frequently changing VAT rules is vital. Lead by example, run frequent spot-checks and spearhead compliance within your own company. Finally, investigate the benefits of outsourcing to experts who can offer a guaranteed compliance service.

3. Audit expenses – and look out for fraud

A good way of checking to see if your business on track is to ask yourself: would you pass an internal audit test? [This blog provides a test](#) you might use to establish whether your business is keeping track of expenses without letting any instances of expenses fiddling, or worse – fraud – slip through the net. Unfortunately, fraud is a real issue when it comes to employee expenses – as the ongoing MPs expenses scandal just goes to show. If you're concerned about risk and expenses fraud: download the [Expenses Fraud Demystified e-book](#) to find out more.

4. Make sure your employees are complying with your expenses policy

Employees are unlikely to comply with an expenses policy that they perceive to be unfair, but it's possible to change minds and hearts by making it easy to claim expenses and by making sure that everyone understands why the policy is in place. Find out more about how software, people and policy work together to encourage compliance – by downloading the white paper on the right.

5. Get help

If you're uncertain about any of the issues raised in this e-book, you might want to take a detailed look at your current VAT processes and consider outsourcing your VAT handling to an expert who can often identify additional VAT that businesses can recover.

Helpful Resources:

Read the white paper:

[Driving Cultural Change - Software, People, Policy and Compliance](#)

07

How Can Technology Help?

With the best will in the world, if organisations are not accurately tracking their employees' spend on expenses, they may fall foul of HMRC requirements. It's most likely that your own organisation is not in that position. Your company probably already has a suitable expenses policy established and an effective way of managing those shoeboxes full of receipts. However, given that a mere 1.2% of out-of-policy submissions are actually rejected by managers, according to the [Concur Employee Expenses Benchmark report](#), it begs the question – are clear expenses policies sufficient to regulate employee spending?



Interesting Facts:

37%

of senior finance leaders see over-complicated processes as the greatest inefficiency in finance departments.

Indeed, 91% of respondents believe that finance departments still have people / a person dedicated specifically to looking through piles of receipts as part, or all, of their job.

There must be a better way to ensure compliance

Expense management solutions can help track the costs of business travel and related expenses in a way that increases transparency and efficiency. If these are combined with the power of a mobile app, it helps expense-submitting employees and their managers to be far more effective at: submitting expenses, ensuring they are within policy, approving only those that are, and reporting on them to comply with HMRC regulations.

Mobile apps make it simpler for all concerned

The simpler it is to submit and audit expenses, the easier it is for all involved in the end-to-end expenses process, including:

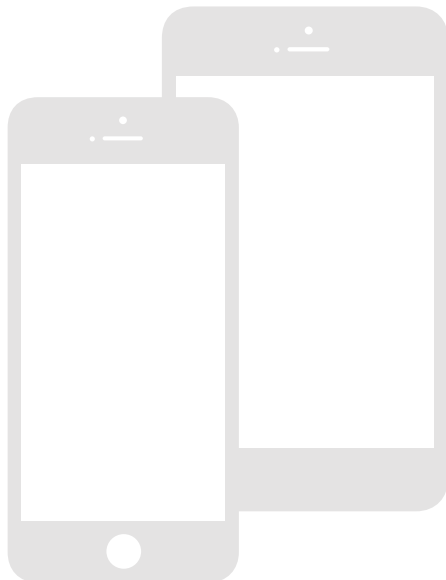
- The business traveller who can simply photograph, upload and attach their hotel invoice and train ticket to their expenses claim while out of the office. He/she is less likely to lose the documentation or make inaccurate claims.
- The manager who can easily approve an expense claim while on the move, or reject individual line items that don't comply with policy. He/she is less likely to delay the approval process beyond month end.
- The accounts payable clerk who has all the receipts to hand. He/she is more likely to identify errors, check for appropriate VAT reclaim or pinpoint suspicious items.

- And, at the top of the chain, the CFO who is more likely to have confidence in the expenses process. He/she gains increased visibility of company-wide expenditure and can identify areas where savings can be made through online [business intelligence](#) and reporting tools with powerful dashboards.

In short, intelligent collaboration using an automated system can help drive compliance throughout an organisation, making both individual travellers and CFO's lives easier and, more importantly; helping to manage the risk from the ever-changing landscape of regulatory compliance.

An automated solution will provide...

- A full end-to-end process
- As much policy automation as possible, with built-in alerts/warnings to employees
- An automated approval process
- Help to identify VAT reclaim
- Granular reporting – so you can get a bigger picture of business spend.



Helpful Resources:

Take a [test drive of the Concur solution](#).

Helpful Resources

Here are some additional resources available on expenses, VAT and HMRC compliance. Click on the hyperlinks to access the documents.

1. HMRC website: [advice about VAT](#)
2. Taxback.com: [a helpful international tax calculator](#)
3. DA bookkeeping's [daily VAT calculator](#)
4. The European Commission's official [VIES VAT number validation checker](#)
5. [HMRC Spot Checks](#) white paper
6. Concur [Employees Expenses Benchmark Report](#): the definitive annual report into employee expenses in the UK
7. The Concur UK blog:
 - a. A selection of [blogs about HMRC](#)
 - b. A selection of [blogs about VAT](#)

About Concur

Twenty years ago Raj Singh, Steve Singh, and Mike Hilton decided that there must be a better way to do expenses. They are still running the company today, and, over the years, Concur has stayed ahead of the curve.

We keep learning with each new customer, and have developed out-of-the-box templates as a result to give businesses a best-practice solution, without the big costs.

Our easy-to-use, web-based and mobile solutions adapt to employees' preferences and scale to meet the needs of companies large and small. The bottom line is that no matter what size your business is, we can help you control costs and save time.

Learn more at www.concur.co.uk

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Want to try a better way of doing expenses?

Simply set up a pilot programme for your business, and see what expenses automation is all about. Give us a call on 00800 4551 6697 (dial both zeroes!) to get started.



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